Japanese Carbon and Alloy Long Products Exclusion Request

Product Category: Hot-Rolled Bar & Light Shapes (#9)

(a)	Product Designation/HTS	**Free-cutting steel containing lead** 7213.20.00.00, 7214.30.00.00
(b)	Product Description	Free-cutting steel wire rod and bar containing 0.10% or more lead
(c)	Basis for Exclusion	See text below
(d)	Names and Location of U.S. and Foreign Producers	See Attachment A
(e)	U.S. Consumption	See Attachment B
(f)	U.S. Production	See Attachment B
(g)	Substitutible Products	See Attachment C

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Most steel wire rod imports are currently subject to safeguard measures pursuant to the recent Section 201 investigation.[1] In his request for this investigation, the U.S. Trade Representative explicitly excluded previously investigated steel wire rod (including those products specifically excluded from safeguards relief).[2] However, free-cutting rod and bar were not subject to the prior Section 201 investigation and therefore are included.

Japan produces a specialized bar and rod product, which is "free-cutting" or easily workable. The addition of lead gives the steel this workability. There are two known U.S. producers of free-cutting bar and rod with lead – Republic and Ispat-Inland – but environmental regulations increase the cost of this product so significantly that U.S. product is uncompetitive. Furthermore, Republic is in bankruptcy, casting doubt whether it will be a viable supplier in the future.

Marwas Steel of New Kensington, Pennsylvania, purchases free-cutting steel with lead for cold-drawing. As Wendy George explains in the attached affidavit, Marwas manufactures fasteners for automotive applications, such as pins for car door frames that are threaded to secure other parts together.[3] The threading must be very precise and Marwas has

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[1] *See* Proclamation No. 7273, 65 Fed. Reg. 8621 (Feb. 18, 2000), *Technical Correction to the Harmonized Tariff Schedule of the United States*, 65 Fed. Reg. 13815 (USTR Mar. 14, 2000).

[2] Letter from Robert B. Zoellick, U.S. Trade Representative, to Stephan Koplan, Chairman, U.S. International Trade Commission, at Annex II (June 22, 2001).

[3] Affidavit of Wendy George, General Manager of the Cold-Drawn Division of Marwas Steel (**Attachment D**).

found that only bar and rod with lead can be worked in such a way. However, obtaining bar and rod with lead from domestic sources is difficult, due to significant regulation by state environmental agencies.

Traditionally, steel mills that use lead in their manufacturing processes have had to incur increased costs in order to comply with various environmental regulations in the state level. In most of the states, there are ceilings as to the amount of certain hazardous materials (including lead) to be included in emissions from factories, so that steel companies are forced to reduce the amount of their lead emissions below the allowed level.[4] Obviously, steel mills that use lead in the manufacturing process would produce more lead-contaminated emission into the air than those that do not. In addition, the steel industry has had to comply with regulations concerning the discharge of lead-contaminated waste materials from factories.[5]

At the same time, the use of lead can result in lead-contaminated dust and soil, which subject these mills to constant inspection by the state government to enforce regulations and statutes for lead abatement, most notably for children's health maintenance.[6] They also have to keep the state government informed of the lead abatement projects they are carrying out.[7] On the other hand, as employers, steel mills are required to follow safety regulations applicable to workplaces handling hazardous materials, and to provide adequate training programs to their employees.[8]

In other words, although there is no specific lead abatement regulation directly targeted to the steel industry, there are various state-level environmental regulations with general applicability, the compliance with which has inevitably increased the overall costs in producing steel products that contain lead.

Therefore, domestic producers must choose to manufacture rod and bar products with lead – which increases their costs – or other products. There is nonetheless a need for leaded bar and rod. Marwas Steel has standing commitments to sell fasteners, selling two truckloads per month to one customer alone. The limited domestic availability of bar and rod with lead significantly constrains U.S. purchasers' sources of supply. Additional trade restraints would only worsen the situation and therefore would be unfair to purchasers like Marwas that depend on imports. The USTR should exclude this product from any remedy recommendation resulting from this investigation.

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[4] Ohio Administrative Code, Section 3745. 31, 3745. 71; Indiana Administrative Code, Title 326, Article 2, Rule 2. We use Ohio and Indiana as examples here because Republic's plant is located in Lorraine, Ohio, and Ispat-Inland is in East Chicago, Indiana.

[5] Ohio Administrative Code, Section 3734. 12; Indiana Administrative Code, Title 326, Article 23, Rule 4.

[6] Ohio Administrative Code, Section 3742. 04.

[7] Indiana Administrative Code, Title 326, Article 23, Rule 4.

[8] Ohio Administrative Code, Section 3742. 03 (B).

ATTACHMENT A

Foreign Producers:

(1) Nippon Steel Corporation
- Address: 6-3, Otemachi 2 chome, Chiyoda-ku, Tokyo 100-8071, Japan
- Phone: 011-81-3-3275-5181
- Fax: 011-81-3-3275-5984

(2) Sumitomo Metals (Kokura), Ltd.
- Address: Triton Square Office Tower Y, 8-11, Harumi 1-chome, Chuo-ku, Tokyo 104-6109, Japan
- Phone: 011-81-3-4416-6627
- Fax: 011-81-3-4416-6787

(3) Kobe Steel, Ltd.
- Address: 9-12, Kita-Shinagawa 5-chome, Shinagawa-ku, Tokyo 141-8688, Japan
- Phone: 011-81-3-5739-6152
- Fax: 011-81-3-5739-6923

(4) Daido Steel Co., Ltd.
- Address: Daido Bldg., 7-13, 1-chome, Nishi-Shinbashi, Minato-ku, Tokyo 105-8403, Japan
- Phone: 011-81-3-3501-8650
- Fax: 011-81-3-3580-7884

(5) Corus, United Kingdom

(6) Saarstahl, Germany

(7) Thyssen, Germany

Domestic Producers:

(1) Republic Technologies, Lorraine, Ohio

(2) Ispat-Inland, East Chicago, Indiana

Free-Cutting Steel Containing Lead

Quantity						January - June			Projections				
	1996	1997	1998	1999	2000	YTD 2000	YTD 2001		2001	2002	2003	2004	2005
Imports from Japan	9,616	41	11,685	1,055	5,254	1,130	3,859	[	8,191	8,191	8,191	8,191	8,191]
Imports from Other Countries	133,883	133,321	142,222	176,879	281,096	132,202	81,251	[	166,894	166,894	166,894	166,894	166,894]
Total Imports	143,499	133,362	153,907	177,934	286,350	133,332	85,110	[	175,085	175,085	175,085	175,085	175,085]
U.S. Shipments	N/A	N/A	N/A	N/A	N/A	N/A	N/A	[	N/A	N/A	N/A	N/A	N/A]
Total U.S. Consumption	N/A	N/A	N/A	N/A	N/A	N/A	N/A	[	N/A	N/A	N/A	N/A	N/A]

Value						January - June			Projections				
	1996	1997	1998	1999	2000	YTD 2000	YTD 2001		2001	2002	2003	2004	2005
Imports from Japan	4,840,493	48,421	5,133,775	462,776	2,288,616	477,382	2,041,004	[	4,179,525	4,179,525	4,179,525	4,179,525	4,179,525]
Imports from Other Countries	70,377,082	68,254,311	69,002,963	78,962,374	115,532,812	52,591,390	33,773,144	[	69,159,774	69,159,774	69,159,774	69,159,774	69,159,774]
Total Imports	75,217,575	68,302,732	74,136,738	79,425,150	117,821,428	53,068,772	35,814,148	[	73,339,299	73,339,299	73,339,299	73,339,299	73,339,299]
U.S. Shipments	N/A	N/A	N/A	N/A	N/A	N/A	N/A	[	N/A	N/A	N/A	N/A	N/A]
Total U.S. Consumption	N/A	N/A	N/A	N/A	N/A	N/A	N/A	[	N/A	N/A	N/A	N/A	N/A]

ATTACHMENT C

Known Substitutible Products:	None
U.S. Production:	None
U.S. Producers:	None

PUBLIC VERSION

AFFIDAVIT OF WENDY GEORGE
GENERAL MANAGER OF THE COLD-DRAWN DIVISION OF MARWAS STEEL

Attachment D

I, Wendy George, declare and state to the best of my knowledge, information, and belief, that:

1. I am the General Manager of Marwas Steel's Cold-Drawn Division in Kensington Pennsylvania. At Marwas Steel, we manufacture cold-drawn steel bars used in fasteners for automotive applications. For example some of our customers produce pins for car door frames that are threaded to secure other parts together. To produce these fasteners we purchase specialized bar and rod containing a certain amount of lead, which allows for easy machining (i.e. "free-cutting"). The fasteners' threading must be very precise; consequently, we have found that only bar and rod that contains lead is sufficiently workable for our purposes.

2. Even though we do purchase some domestic free-cutting bar and rod, Japanese hot-rolled bar and rod are essential to our business for several reasons. First, to the best of my knowledge there are only two U.S. producers who continue to produce free-cutting bar and rod with lead: Republic and Ispat-Inland. Of those two suppliers, Republic is in bankruptcy casting significant doubt as to their continued viability. Therefore, Marwas faces the possibility of being forced to purchase free-cutting bar and rod from the only remaining supplier in the market, Ispat-Inland.

3. Second, a reason why there are only two suppliers (perhaps soon to be only one) is that most states strictly limit plant emissions of hazardous material such as lead. Absent adequate controls, manufacture of free-cutting steels inevitably results in a level of lead emissions in excess of that which is allowed by most state environmental regulations. Controlling these emissions is very expensive, and these costs are directly reflected in the price the remaining two domestic mills charge for the free cutting steel. This combined with the limited and unpredictable supply of the product here in the United States puts us in an untenably precarious position if we are cut off from our Japanese source of supply.

4. We have been purchasing foreign free-cutting bar and rod for a number of years. Our Japanese suppliers have established themselves as reliable suppliers. Marwas Steel's business would be injured if we were not able to purchase Japanese bar and rod.

Wendy George

PUBLIC VERSION